



FINANCIAL AND COMPLIANCE AUDIT REPORT

**Kansas Racing and Gaming Commission
Fiscal Year 2002**

**A Report to the Legislative Post Audit Committee
By McBride, Lock & Associates Under Contract with the
Legislative Division of Post Audit
State of Kansas
November 2002**

Legislative Post Audit Committee

Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the

Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

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Barbara J. Hinton, Legislative Post Auditor

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

FINANCIAL AND COMPLIANCE AUDIT REPORT
KANSAS RACING AND GAMING COMMISSION
FISCAL YEAR 2002

KANSAS RACING AND GAMING COMMISSION
FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended June 30, 2002

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KANSAS RACING AND GAMING COMMISSION

INTRODUCTION

For the Year Ended June 30, 2002

The accompanying report presents the results of the financial and compliance audit of the operations of the Kansas Racing and Gaming Commission (Commission) for the fiscal year ended June 30, 2002.

Effective July 1, 1996 with the Governor's signing of the Senate Bills 410 and 495, the State Gaming Agency was attached to the Racing Commission and the agency's name was changed to the Kansas Racing and Gaming Commission.

The Commission comprises five members appointed by the Governor and confirmed by the Senate. The Governor also appoints an Executive Director for the Racing Commission and an Executive Director for the State Gaming Agency. Both of these appointments are subject to confirmation by the Senate. The Racing Commission's primary mission is the regulation of racing and parimutuel operations in Kansas. The Commission also promotes the development of the horse and dog industries, and ensures the health and safety of animals involved in racing.

The State of Kansas currently has four operating race tracks with parimutuel wagering:

Kansas City
Wichita
Anthony
Eureka

The Kansas City track has both horse and greyhound racing, while the Wichita track has only greyhound racing. The Anthony Fair Association holds annual races during the month of July at Anthony, Kansas. The Greenwood County Fair and Kansas Quarter Horse Association holds annual races during the months of May, June and July at Eureka, Kansas. By law, each track's operation comprises a nonprofit organization licensed to operate racing and parimutuel wagering, and a facility owner/manager licensed to own and operate the track facility itself. The Kansas nonprofit organization collects wagers, and from those moneys it pays winning bettors, contributes to race purses, pays management fees to the facility owner/manager, pays applicable taxes to the Racing and Gaming Commission, pays its own operating expenses, and distributes all remaining moneys to charitable organizations as specified by statutory requirements.

The State Gaming Agency fulfills the duties and obligations of the state as set forth in the tribal-state gaming compacts and the tribal-gaming oversight act. The compacts outline the duties of the Native American tribes and the State Gaming Agency regarding the operation and regulation of tribal gaming. These duties include conducting and reporting to the tribal gaming commissions regarding mandatory background investigations on specified gaming employees, monitoring compliance with internal control and gaming rules, and monitoring compliance with the compacts' licensing criteria. Additionally, the tribal-gaming oversight act authorizes the State Gaming Agency to exercise its law enforcement powers to perform the duties of the compacts and the tribal-gaming oversight act.

KANSAS RACING AND GAMING COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2002

None.

KANSAS RACING AND GAMING COMMISSION

FOLLOW-UP ON PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2002

None.

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

Legislative Division of Post Audit
Kansas State Legislature

We have audited the accompanying Statement of Changes in Fund Balance of the Kansas Racing and Gaming Commission (Commission), as of and for the year ended June 30, 2002. This financial statement is the responsibility of the Commission's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared in conformity with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Commission for the year ended June 30, 2002 and the changes therein for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2002 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts.



McBride, Lock & Associates

September 4, 2002

KANSAS RACING AND GAMING COMMISSION
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	State Racing Fund	Horse Fair Racing Benefit Fund	Horse Breeding Development Fund	Racing Investigative Expense Fund	Greyhound Breeding Development Fund	Racing Reimbursable Expense Fund	Racing Applicant Deposit Fund	State Gaming Fund	Commission Total
Beginning Balance on July 1, 2001	\$ 473,918	\$ 526,024	\$ 196,560	\$ 19,892	\$ 405,007	\$ 30,936	\$ 793	\$ 686,867	\$ 2,339,997
Prior Period Adjustments:									
Disencumber Balances (Note 4)	\$ 32,574	\$ 4,466	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,327	\$ 47,367
Prior Year KSIP Expense	(28,040)	0	0	0	0	0	0	0	(28,040)
Correct Prior Year Transfers Out (Note 4)	0	0	0	0	0	0	0	(224,568)	(224,568)
Total Adjustments	\$ 4,534	\$ 4,466	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (214,241)	\$ (205,241)
Receipts:									
Revenues	\$ 3,074,887	\$ 951,528	\$ 480,161	\$ 3,840	\$ 347,356	\$ 26,445	\$ 22	\$ 907,551	\$ 5,791,790
General Fund Transfer (Note 5)	0	0	0	0	0	0	0	450,000	450,000
Horse Fair Fund Transfer	78,418	0	0	0	0	0	0	0	78,418
Total Receipts	\$ 3,153,305	\$ 951,528	\$ 480,161	\$ 3,840	\$ 347,356	\$ 26,445	\$ 22	\$ 1,357,551	\$ 6,320,208
Disbursements:									
Operating Expenditures	\$ 2,731,634	\$ 1,054,408	\$ 472,879	\$ 3,840	\$ 458,252	\$ 25,886	\$ 0	\$ 1,104,705	\$ 5,851,604
Gaming Fund Transfer	343,724	0	0	0	0	0	0	0	343,724
General Fund Transfer	4,839	0	0	0	0	0	0	302,083	306,922
Greyhound Tourism Fund Transfer (Note 6)	0	0	0	0	53,103	0	0	0	53,103
Racing Fund Transfer	0	78,418	0	0	0	0	0	0	78,418
Total Disbursements	\$ 3,080,197	\$ 1,132,826	\$ 472,879	\$ 3,840	\$ 511,355	\$ 25,886	\$ 0	\$ 1,406,788	\$ 6,633,771
Ending Fund Balance on June 30, 2002	\$ 551,560	\$ 349,192	\$ 203,842	\$ 19,892	\$ 241,008	\$ 31,495	\$ 815	\$ 423,389	\$ 1,821,193

The accompanying notes are an integral part of this financial statement.

KANSAS RACING AND GAMING COMMISSION

NOTES TO FINANCIAL STATEMENT

For the Fiscal Year Ended June 30, 2002

1 - Summary of Significant Accounting Policies

Basis of Accounting

These financial statements are presented in compliance with the cash basis and budget laws of the State of Kansas. Revenues, from racing, consisting primarily of taxes charged at the racing establishments and gaming's revenues from annual assessments of the Tribes, are recognized when received. Expenditures are recognized when paid or encumbered. Encumbrances represent commitments relating to unperformed contracts for goods or services. Accordingly, the statement of changes in fund balances is not intended to present the results of operations of financial position in accordance with U.S. generally accepted accounting principles.

Description of Funds

The number and types of funds of the Commission are controlled by legislative and state administrative actions. For purposes of the Central Accounting System for Kansas, the types or groups of funds within the Commission are as follows:

State Racing Fund

All taxes on live parimutuel wagering, admissions tax, application fees, license fees and fines which are collected by the Commission are credited to the State Racing Fund. Two-thirds of the parimutuel taxes on simulcast performances are credited to the State Racing Fund.

Operating expenses of the Commission are paid from the State Racing Fund. Any money in the State Racing Fund in excess of \$300,000, taking into consideration encumbrances, anticipated revenues, revenue and expenditures experience to date and other relevant factors, is transferred on a monthly basis to the State Gaming Revenue Fund.

Horse Fair Racing Benefit Fund

This fund's revenue is derived from 1/3 of the parimutuel taxes pools for simulcast races. Monies in the fund are allocated by the Commission for specific operating expenses related to horse race meetings conducted by a fair association or horsemen's nonprofit organization.

KANSAS RACING AND GAMING COMMISSION

NOTES TO FINANCIAL STATEMENT

For the Fiscal Year Ended June 30, 2002

1 - Summary of Significant Accounting Policies (Continued)

Horse Breeding Development Fund

This fund's revenue is derived from breakage and unclaimed winning tickets from horse performances. The funds are distributed by the Commission to various breeds of horses which are participating in the races.

Racing Investigative Expense Fund

All expenses of investigation of an applicant's qualification for an organization license, facility owner license or facility manager licenses are paid from this fund. Whenever another state agency assists the Commission in investigations and incurs costs in addition to those attributed to the operations of the agency, those costs are paid from this fund. The applicant reimburses the commission for all costs related to their investigation.

Greyhound Breeding Development Fund

This fund's revenue is derived from unclaimed winning tickets from greyhound races. Funds are distributed by the Commission as follows:

15% Greyhound Tourism
35% Greyhound Research
50% Supplement Kansas Bred Stakes Races

Racing Reimbursable Expense Fund

All fees for processing fingerprints of licensees are paid from the Racing Reimbursable Expense Fund and reimbursed by the licensee.

Racing Applicant Deposit Fund

An applicant proposing to construct a racetrack facility is required at the time of making application to make a deposit. If the racetrack is constructed in accordance with the terms of the application, the deposit and interest is refunded. If the applicant fails to complete the racetrack facility in accordance with terms, the deposit and interest are forfeited by the applicant.

KANSAS RACING AND GAMING COMMISSION

NOTES TO FINANCIAL STATEMENT

For the Fiscal Year Ended June 30, 2002

1 - Summary of Significant Accounting Policies (Continued)

State Gaming Fund

This fund's primary revenues are derived from the annual assessments of the Tribes for the cost of oversight and mandatory background investigations.

2 - Cash Balances

Cash balances reconcile to fund balances as follows:

Fund Types	Cash Per DAFR 8120	Contingent Encumbrances	KSIP	Fund Balance
State Racing Fund	\$ 543,777	\$ (8,576)	\$16,359	\$551,560
Horse Fair Racing Benefit Fund	349,192	0	0	349,192
Horse Breeding Development Fund	203,842	0	0	203,842
Racing Investigative Expense Fund	19,892	0	0	19,892
Greyhound Breeding Development Fund	241,008	0	0	241,008
Racing Reimbursable Expense Fund	31,495	0	0	31,495
Racing Applicant Deposit Fund	815	0	0	815
State Gaming Fund	423,389	0	0	423,389
Total	<u>\$ 1,813,410</u>	<u>\$ (8,576)</u>	<u>\$16,359</u>	<u>\$1,821,193</u>

Contingent encumbrances are not taken against the cash balances until expended. Additionally, the Kansas Savings Investment Plan (KSIP) allows agencies to spend up to fifty percent of budget savings for the following purposes:

1. Salary bonus payments
2. Purchase or other acquisition of technology equipment
3. Professional development training

The Commission was originally authorized to spend up to \$138,416 through KSIP for fiscal year 2002. This amount was reduced during the legislative process to \$80,000.

KANSAS RACING AND GAMING COMMISSION

NOTES TO FINANCIAL STATEMENT

For the Fiscal Year Ended June 30, 2002

3 - Employees' Retirement System

Substantially all employees of the Commission are eligible to participate in the Kansas Public Employees' Retirement System (KPERs) after one year of employment. Employees who retire at or after age 65 or age 62 with ten years service credit or at any age when years of service plus age equal 85 "points" are entitled to a retirement benefit payable monthly for life, equal to 1 percent of their final average salary for each year of "prior" service, and 1.75 percent of each year of "participating" service. Final average salary is the employee's average salary over the higher of four years of credited service including add-ons such as accrued sick leave and vacation leave or a three year average without add-ons. For those hired July 1, 1993 or later, final average salary is a three year average with no add-ons. Benefits fully vest upon reaching 10 years of service. Vested employees may retire at age 55 and receive reduced retirement benefits. KPERs also provides death and disability benefits. Benefits are established by State of Kansas statute.

Covered employees are required by State to contribute 4 percent of their salary to the plan. The employer is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess KPERs' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employees Retirement Systems and employers. KPERs does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 2001 for KPERs as a whole, determined through an actuarial valuation performed as of that date, was \$11.74 billion. KPERs' net assets available for benefit obligation estimated at \$9.96 billion, leaving an unfunded pension benefit obligation estimated at \$1.78 billion. The contribution of the Commission for the period covered by this report represents less than 1 percent of total contributions required of all participating entries.

Ten-year historical trend information showing KPERs' progress in accumulating sufficient assets pay benefits when due to presented KPERs' 2002 Comprehensive Annual Financial Report.

KANSAS RACING AND GAMING COMMISSION

NOTES TO FINANCIAL STATEMENT

For the Fiscal Year Ended June 30, 2002

4 - Prior Period Adjustments

The differences between fiscal year 2001 encumbrances and actual amounts expended are as follows:

	State Racing Fund	Racing Reimbursable Expense Fund	State Gaming Fund	Commission Total
Fiscal Year 2001 Encumbrances	\$ 91,850	\$ 11,200	\$ 26,463	\$ 129,513
Fiscal Year 2001 Disbursements In Fiscal Year 2002	(48,002)	(6,734)	(16,136)	(70,872)
Fiscal Year 2001 Encumbrances Carried Over to Fiscal Year 2002	(11,274)	0	0	(11,274)
Disencumbered Balances	<u>\$ 32,574</u>	<u>\$ 4,466</u>	<u>\$ 10,327</u>	<u>\$ 47,367</u>

In the Prior Audit, the amount of transfers from the State Gaming Fund to the State General Fund was \$420,864. The actual transfer amount should have been \$645,432. This was caused by the exclusion of transfers to the state General Fund for repayment of a fiscal year 2000 loan. Therefore, transfers to the General Fund from the State Gaming Fund were understated by \$224, 568.

5 - Gaming Fund Loan

The Gaming Fund receives a \$450,000 loan each year for start-up cash flow. Throughout the year, this loan is paid back. At June 30, 2002, \$300,000 of the loan had been paid back leaving \$150,000 still due to the State General Fund.

6 - Greyhound Tourism Fund Transfer

The Commission is required to transfer 15% of the Kansas Greyhound Breeding Development Fund receipts to the Greyhound Tourism Fund each year. The transfer should have been \$52,103 in 2002. However, when the transfer was processed, \$53,103 was actually transferred. This will be corrected in 2003 by transferring \$1,000 less than the required amount.

McBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Legislative Division of Post Audit
Kansas State Legislature

We have audited the financial statement of the Kansas Racing and Gaming Commission (Commission) as of and for the year ended June 30, 2002, and have issued our report thereon dated September 4, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and the Legislative Post Audit Committee, Kansas State Legislature. However, this report is a matter of public record and its distribution is not limited.

McBride, Lock & Associates

McBride, Lock & Associates

September 4, 2002

AUDITEE RESPONSE

STATE OF KANSAS



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KANSAS RACING AND GAMING COMMISSION

October 25, 2002

Mr. Charles McBride
McBride, Lock and Associates
Suite 406
1221 Baltimore Ave
Kansas City, Missouri 64105

Dear Mr. McBride:

I have had the opportunity to review the draft audit report for the Kansas Racing and Gaming Commission (KRGCC). The draft appears representative of the activity of the KRGCC and the State Gaming Agency, with two exceptions.

First, the amount of funds available to the KRGCC through the Kansas Saving Incentive Program (KSIP). On page 8 of the report it states the following:

The Commission was authorized to spend up to \$138,416 through KSIP for fiscal year 2002.

In actuality, the KRGCC was authorized to spend only up to \$80,000 through KSIP for fiscal year 2002. Originally, the KRGCC had an available KSIP savings for fiscal year 2001 of \$138,416, which when added to the previous year's savings totaled \$491,146. During the legislative process this amount was reduced to the previously stated level of \$80,000.

Second, on page 10 under the heading of Prior Period Adjustments the language should be changed to reflect the following:

Fiscal Year 2001- Encumbrances Carried Over to Fiscal Year 2003.

Currently, the report states 2002.

In addition, as part of the review, I noted some language, which has been used in past audit reports, which does not present a complete picture of the agency and the various funds which it utilizes to operate. I would like to point out these sections and ask that changes to this language be considered for future audit reports.

First, on page 6 of the report under the heading of the State Racing Fund, the following current

October 25, 2002
Mr. Charles McBride
Page Two

language is noted:

All operating expenses of the Commission are paid from the State Racing Fund. Any money in the State Racing Fund in excess of \$300,000 is transferred on a monthly basis to the State Gaming Revenue Fund.

In accordance with K.S.A. 74-8826(c), the KRGC is permitted to take into consideration encumbrances, anticipated revenues, revenue and expenditures experience as well as other factors when making any transfer of funds. The following would more accurately represent the status of the State Racing Fund:

Operating expenses of the Commission are paid from the State Racing Fund. Any money in the State Racing Fund in excess of \$300,000, taking into consideration encumbrances, anticipated revenues, revenue and expenditures experience to date and other relevant factors, is transferred on a monthly basis to the State Gaming Revenue Fund.

Second, on page 7 of the report under the heading of the Racing Investigative Expense Fund, the following is noted:

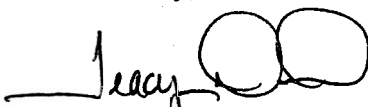
All expenses of the investigation of an applicant's qualification for licenser are paid from this fund.

In accordance with K.S.A. 74-8835(c), the expenses for the investigation of an organization licensee, which is the non-profit organization that conducts live racing, the facility owner licensee, or the facility manager licensee, which are the entities that own and operate the racetrack facility where live racing is conducted, are paid from this fund. The following language would more accurately represent the status of the Racing Investigative Expense Fund:

All expenses of an applicant's qualifications for an organization license, facility owner license or facility manager licenses are paid from this fund.

Thank you for this opportunity to respond to the draft audit report. If you have any questions, please contact me.

Sincerely,



Tracy T. Diel
Acting Executive Director

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